



Beneficial[®]
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Ms. Cynthia L. Johnson, Director
Cash Management Policy and Planning Division
Financial Management Service
US Department of Treasury
Room 420
401 14th St. SW
Washington, D.C. 20227

**RE: Proposed Rule to Implement the Requirements for Mandating
EFT for Federal Benefit Payments
31 CFR Part 208**

Dear Ms. Johnson:

On behalf of Beneficial Corp. I am providing comments on the proposed rule for implementing provisions of the Debt Collection Improvement Act of 1996.

Beneficial Corp. is a \$17 billion financial services holding company that provides service to American consumers through more than 1,000 offices nationwide. Beneficial subsidiaries include a full-service commercial bank (Beneficial National Bank), a credit card bank for private label credit card services (Beneficial National Bank USA), a federal savings bank (Beneficial Savings Bank), Beneficial Consumer Finance and Beneficial Insurance Group.

During the last four months Beneficial has been conducting a pilot for a direct deposit account for the unbanked which we plan to take on a national scale. For this pilot Beneficial is partnering with bill-paying companies in urban areas. The program, called QuickAccess, is a version of Direct Deposit Too, a product that Treasury identifies as a model for a simple, reasonably priced and electronically accessible deposit account.

When customers sign up for a QuickAccess account at participating Quick Access retail locations conveniently located where the unbanked live and work, an individual account is opened for them through Beneficial's distribution partner (wire transfer/money order agent, check casher, bill paying agent) at Beneficial National Bank (BNB). The QuickAccess customer enjoys all the consumer protections as other account holders at BNB including federal deposit insurance and full Reg E disclosures and monthly statements.

EFT
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In addition to Federal payments, Quick Access customers may arrange to have payroll or other checks deposited to the account, and they may (in some instances) also make cash deposits at QuickAccess retail locations. Funds are withdrawn by using the QuickAccess debit card at a participating retail partner outlet. Retail outlets will be equipped with Point of Sale terminals with a pin pad, at an ATM or POS retail location. All QuickAccess transactions are processed using "real time" to ensure that the account will not be overdrawn, and there is no minimum balance requirement to maintain or open the account. This product has received very favorable comments from various state community leaders. In addition, Beneficial is working closely with the New Jersey Community Development Corporation on our QuickAccess pilot.

QuickAccess fully meets Treasury's domestic policy objective of encouraging individuals who do not have an account at a financial institution to move into the financial services mainstream. It should be noted, however, that although this objective is highly laudable from a public policy standpoint, its implementation is extremely challenging. The comments offered in this letter concerning electronic transfer accounts are based in part on the experience gained from Beneficial's QuickAccess pilot.

AUTHORIZED PAYMENT AGENTS/MANAGEMENT ACCOUNTS

Beneficial strongly concurs with Treasury's decision to limit the term "authorized payment agent" to federally insured financial institutions. This decision is appropriate because it is operationally impossible for non-financial institutions to participate in the ACH network, and also because only a fully consumer-protected account at a financial institution will fulfill the mandate required of Treasury under the provisions of PL 104-134.

"(2) Regulations under this section shall ensure that individuals required under subsection (g) to have an account at a financial institution because of the application of subsection (f) (1) --

"(A) will have access to such an account at a reasonable cost; and

"(B) are given the same consumer protections with respect to the account as other account holders at the same institution."

For the reasons noted above, we strongly oppose the idea of permitting management accounts to be used for the purpose of providing ETA services for the unbanked. Treasury could deliver a payment to a management account in the name of an agent held by a financial institution, however, the customer would not enjoy the same protections as individual account holders.

Management accounts could offer pass through federal deposit insurance, but it is questionable whether other consumer protection laws would apply. Furthermore, as stated in the commentary to the proposed rule, Treasury would have no way of determining the credit risks of third party agents or whether they would honor their obligations in the event of failure since neither Treasury nor any other federal agency has authority over these third party agents.

THIRD PARTY OUTLETS/SPECIAL ACCOUNT EXEMPTION

Based on our experience with the QuickAccess pilot, we believe that broad-based acceptance of a program creating access to direct deposited funds for previously unbanked consumers cannot be ensured without the use of third party non-financial outlets who conduct business where the unbanked customers live and work. Although very little information is available regarding the use of traditional and non-traditional financial services by the unbanked, studies recently conducted, including two research studies contracted by Treasury, show that the unbanked are extremely resistant to dealing with financial institutions and are distrustful of certain government entities as well, including the Post Office. We recognize there is opposition to allowing non-financial institutions (i.e., money transmitters, bill payers or check cashers) to participate in any arrangement for providing a direct deposit account for the unbanked. However, these non-traditional financial service providers are familiar to the unbanked, they have developed strong relationships with them and, most important of all, these providers are currently located in the neighborhoods where the unbanked live, something we feel absolutely imperative to this initiative's success. In fact, according to studies that are available, most of the unbanked would choose to do business with these neighborhood service providers rather than with a traditional bank.

To date, most financial institutions have not shown a great interest in offering a reasonably priced direct deposit account for the unbanked. This situation may change in time when there is an established performance record for these accounts as business operations. However, even if a majority of banks agreed to offer such accounts and even if the unbanked agreed to accept bank services, there are simply not enough banks, branches or ATMs in unbanked neighborhoods to accommodate the needs of the approximately 10 million Americans who will require an electronically accessible account within the next two years. It is for this reason that Beneficial has chosen a strategy to build relationships with unbanked consumers where they live, through the establishment of retail outlet locations with ATM/POS capability.

Another feature that may meet with acceptance of the ETA by the unbanked is a special exemption from this account to make it unreachable by creditors. (This exemption would not apply to Government creditors seeking recovery of back child support, delinquent taxes and student loans). Some of the distrust that many of the unbanked have for financial institutions may relate to concerns about losing accounts on deposit to creditors through collection actions. An ETA account that is safe (federally insured), convenient (direct deposit/ATM/POS access) and cost-effective may become considerably more attractive to the unbanked if it also provides a "safe harbor" from the reach of private sector creditors.

WAIVERS

The EFT'99 mandate may well be the only impetus for unbanked Americans to enter the mainstream of financial services. To prevent these citizens from suffering undue hardship in order to comply with the new legal mandate, the law authorizes Treasury to waive the EFT requirement in specified circumstances. However, if these circumstances are broadly defined to allow open-ended, self-certifying waivers, it is very reasonable to assume that a large percentage of the unbanked will obtain a waiver (studies show as high as 70%) and resist opening a direct deposit account until they are forced to accept an ETA provided by the government. This situation would adversely affect private sector initiatives like QuickAccess and would complicate and delay the EFT conversion process for providing millions of unbanked federal payment beneficiaries with an electronic transfer account.

COST AND STRUCTURE OF ACCOUNTS

The proposed rule requests comment on a number of ideas concerning the structure of the ETA (number of withdrawals, third party payments, savings features) and various pricing issues. Beneficial suggests that the final rule provide sufficient flexibility to allow ETA providers to balance the ability to offer features beyond the basic withdrawal service with the requirement for making the account available at a reasonable cost. However, as the benefit to the consumer, we suggest the ETA have standard "full service" features such as monthly statement issuance to aid in financial planning, full Reg E protection and ATM capabilities. As these services are somewhat costly to the financial institution, the challenge will be to balance product pricing with product features. We strongly recommend that the marketplace be permitted to determine a fair price for the services required.

ETA AND PRIVATE SECTOR INITIATIVES

Only a few companies are actually conducting pilots for a Direct Deposit Too product. If interest remains at its current level for voluntary private sector initiatives, and if broad self-certifying waivers are approved, Treasury may have to depend on regional ETA agreements to meet the EFT'99 deadline.

By definition, the winners of these government ETA contracts will be large financial institutions capable of using economies of scale to under-price products offered by smaller institutions. These economies would largely be achieved through a form of centralized distribution which we believe would exclude certain urban and rural areas that are important to many low-income consumers. As we discovered in developing our strategy for QuickAccess, the ability to deliver federal payments to the unbanked electronically will depend on the availability of convenient access points and the development of ATMs and POS terminals in unbanked communities.

OTHER RECOMMENDATIONS

One suggestion for dealing with a potentially competitive disadvantage for smaller institutions is to allow part of the estimated \$500 million the government will save by moving toward EFT delivery of Federal benefits to be awarded to any financial institution (with or without an ETA contract) that offers a direct deposit account for the unbanked at a reasonable cost. We would propose passing those savings directly on to the consumer as some form of initial deposit into their DD Too account as a means of creating another incentive to open an electronic account.

We would also encourage Treasury to continue to develop and execute a well-defined and significant advertising and consumer education campaign with respect to EFT'99. Our focus group studies have clearly shown that the unbanked lack sufficient knowledge about the process of obtaining electronic payment of benefits. As an impartial and independent source, Treasury could be very helpful in providing and advertising EFT'99 information to consumers.

We anticipate no delays with our product; QuickAccess will be fully operational on January 1, 1999. Beneficial invites FMS as well as other departments of Treasury to contact us at any time regarding our progress with this project.

Beneficial appreciates the opportunity to comment on this proposed rule and applauds Treasury's efforts to improve the financial independence of millions of Americans by providing them with access to modern financial services.

Sincerely,

A handwritten signature in black ink, appearing to read 'Patrick A. Cozza', with a long horizontal flourish extending to the right.

Patrick A. Cozza